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¶11. (U) This cable contains the Japan Economic Scope from September 27, 2007.

¶12. (SBU) Table of Contents

Political

¶13. New PM Fukuda Keeps Economic Team Intact
¶14. Less Uncertainty in Japan's Trade Team
¶15. Fukuda's Campaign Pledges Squishy on Reform (

International Interrelations

¶16. Asia is the Future of Energy
¶17. 2007 FDI in Japan Hit Net Record
¶18. METI Seeks Early Implementation of Japanese Depositary Receipt

Aviation and Industry

¶19. MLIT Leaks Abolishment on Double Approval Pricing System
¶110. Boeing Dreamliner returns "magic" to flight
¶111. JCAB Proposes Flight Schedule during Yokota Dual-Use Study Group Meeting
¶112. Dubai Airline Offering Free Nagoya-Tokyo Bullet Train Tickets
¶113. Nippon Steel Acquires Daido Steel Affiliate

Economic Impact

¶114. Japan Post Privatization Set to Begin
¶115. Updated Economic Indicators
¶116. Age-Restricted Employment Ads to Be Curtailed

Trade

¶117. Pork Importer Arrested Over Tariff Evasion
¶118. Beef Still in Freezer?
¶119. Pan-East Asian Trade "Merely a Dream"

Sports

¶120. Sumo World Rocked by Scandal -- Again
¶121. Comeback for Kei Igawa?

POLITICAL

¶13. (SBU) New PM Fukuda Keeps Economic Team Intact

After winning the Liberal Democratic Party (LDP) presidency over the weekend, Yasuo Fukuda was officially elected prime minister September 26. His Diet selection, though never in doubt, was delayed slightly by Democratic Party of Japan (DPJ) parliamentary

maneuvering.

Fukuda opted to keep 13 of the 17 ministers from former Prime Minister Shinzo Abe's cabinet, and he kept the entire economic team intact. His four changes were the following: 1) moving Nobutaka Machimura from foreign minister to chief cabinet secretary; 2) moving Masahiko Komura from defense minister to

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foreign minister; 3) selecting Shigeru Ishiba as defense minister; and 4) appointing Kisaburo Tokai as education minister.

Fukuda's retention of Justice Minister Hatoyama and METI Minister Amari, both of whom supported rival LDP presidential candidate Taro Aso, was somewhat surprising. Commentators have stressed Fukuda's need for continuity, given the ongoing Diet session and the preparation time new ministers would have for parliamentary appearances.

In other personnel matters, PM Fukuda selected former Finance Minister Sadakazu Tanigaki as LDP Policy Research Council Chairman. When Tanigaki challenged former PM Abe for the LDP presidency in 2006, he was an outspoken advocate for raising the consumption tax, and media have interpreted his selection as an indication Fukuda will focus more on fiscal reconstruction than the more growth-oriented policies pursued under PM Abe. A photo gallery of the new cabinet is attached. For more information on PM Fukuda's team, see classified cables Tokyo 4466 (new cabinet members) and 4468 (LDP executive). (ECON: Marc Dillard)

¶4. (SBU) Less Uncertainty in Japan's Trade Team

Japan's trade policy under a new prime minister will be

TOKYO 00004552 002 OF 007

interesting to watch in coming weeks, but there is a little less uncertainty after Trade Minister Akira Amari and Agriculture Minister Masatoshi Wakabayashi retained their positions.

Wakabayashi was installed -- or reinstalled -- last month as MAFF's fifth minister since May after a series of financial scandals derailed at least three previous incumbents. New PM Fukuda apparently saw no reason to go find another minister at this time.

As for Amari, political pundits expected him to go after he supported Taro Aso over Fukuda in the PM race. According to a METI official we talked to September 26, most ministry officials saw Amari's days as numbers.

Amari thought he was on the way out too. According to our source, the Trade Minister quipped to a large gathering of METI officials after the new cabinet announcement how surprised he was to be still on the job.

Amari is very popular at METI and "very familiar" with the issues, our source indicated. This would not have been a good time to find a new minister, he concluded. (ECON: Nicholas Hill)

¶5. (SBU) Fukuda's Campaign Pledges Squishy on Reform

During his short campaign for the LDP presidency, PM Fukuda expressed qualified support for former PM Koizumi's "reform agenda," but stressed the need to address regional disparity and pocketbook issues, along with the "stability" he would bring to office. See Tokyo 4417 for details. (ECON: Marc Dillard)

INTERNATIONAL INTERRELATIONS

¶6. (U) Asia is the Future of Energy

Non-OECD Asia will account for 75 percent of total growth in world energy consumption between now and 2030, said DOE's Energy Information Administration (EIA) Administrator Guy Caruso during a September 12-13 trip to Japan.

Growth will occur across every fuel source, but will be especially predominant in coal with a commensurate growth in carbon dioxide emissions. The EIA estimates world oil consumption will go from 85 million barrels today to 115 million barrels by 2030.

China alone will increase from 7 million barrels to 20 million barrels per day over this same timeframe, although many have criticized this number as too conservative.

The current sky-high oil prices are a result of a perfect storm of contributing factors. Deterioration of the investment climate in such producer nations as Venezuela, Russia and Iraq added to the situation.

Caruso noted that, under President Chavez, oil production in Venezuela has declined from 4.5 million barrels per day to 2.5 million barrels per day, helping to push up prices for Middle East oil. "Chavez is the Saudis' best friend," he joked. Second, the low price of oil and natural gas in the late 1980s and early 1990s acted as a disincentive to investment and investors are now racing to catch-up.

Finally, China and India's voracious energy needs are adding fuel to the fire, Caruso stated. (ECON: Sally Behrhorst)

17. (U) 2007 FDI in Japan Hit Net Record

Foreign Direct Investment (FDI) in Japan between January and July this year hit a record net capital inflow of 2.32 trillion yen, according to the Ministry of Finance. This figure already exceeded the record annual net inflow of 1.45 trillion yen in 1999.

This increase is largely due to a significant amount of "out-in" M&A transactions including Citigroup's acquisition of Nikko

TOKYO 00004552 003 OF 007

Cordial Group (920 billion yen), Volvo's purchase of Nissan Diesel Motor (135 billion yen), and General Electric's purchase of Sanyo Electric Credit (126 billion yen).

However, there is a concern that the latter half of the year is going as well, largely due to the financial market turmoil triggered by the sub-prime loan debacle in the U.S.

Analysis by Thomson Financial already shows this tendency as the number of M&A transactions worldwide in August was already 22 percent lower than in July. Nikkei reported that many analysts see the M&A market in Japan could also be affected to some degree.

Further improvements in the investment environment -- including progress on regulatory reform -- is necessary for Japan to promote further inward direct investment. (ECON: Satoshi Hattori)

18. (U) METI Seeks Early Implementation of Japanese Depositary Receipt

Ministry of Economy, Trade and Industry (METI) and its Global Industrial Finance Study Group issued a report discussing challenges and measures to achieve the Asia Industrial Finance Zone Initiative.

As one step, the report calls for early implementation of the Japanese depositary receipt (JDR), the Japanese version of the American depositary receipt (ADR), to promote listings of foreign companies on Japanese stock exchanges.

In order to disseminate JDRs in Asia and promptly issue them, the report makes several recommendations including: prepare brochures and organize fora abroad; promote JDRs as financing instrument for Indian companies in the Delhi-Mumbai Industrial Corridor project; review the disclosure requirements that could be a burden on foreign companies, and; encourage financial institutions to develop new products and services.

Issuance of JDRs will be recognized under the revised Trust Law and the amended Securities and Exchange Law (Financial Instruments and Exchange Law). (ECON: Satoshi Hattori)

AVIATION AND INDUSTRY

19. (U) MLIT Leaks Abolishment on Double Approval Pricing System

The Construction and Transport Ministry will abolish the de facto lower limit on fares for international flights from Japan to foreign destinations beginning in fiscal 2008, according to ministry sources.

The ministry will also scrap what it calls the double approval system, which requires countries at both end points of a route to approve a ticket price, according to the Yomiuri Shimbun article. After the deregulation, airlines will need approval only from the country of departure.

The changes will make it easier for foreign budget airlines to operate in Japan and are expected to trigger a price war. (ECON: Junko Nagahama)

110. (U) Boeing Dreamliner returns "magic" to flight

President of Boeing Japan Nicole Piasecki explained the market strategy for Boeing's newest aircraft, the 787 Dreamliner, during a lunch at the Tokyo American Club September 27.

"We want to bring the magic back to flight," she explained showing photos of larger windows, softer lighting and smoother curves on the aircraft. She noted that the Dreamliner is a global project, designed and built in a variety of countries including 35 percent of its construction in Japan.

The aircraft designer explained an increase in demand for point to point travel. Customers want the shortest travel time possible, according to Boeing research. More non-stop flights

TOKYO 00004552 004 OF 007

and more frequencies give customers more options, she said.

"We estimate the Dreamliner will allow airlines to create 600 new routes, making flight more convenient for the customer," she explained. Using China as an example, she noted that the number of flights originating from or arriving to China has increased nearly 20 times since 1999. (ECON: Charlie Crouch)

111. (SBU) JCAB Proposes Flight Schedule during Yokota Dual-Use Study Group Meeting

During the 8th Study Group bilateral meeting for Civilian-Military Dual Use of Yokota Air Base on September 26, the Japanese Civil Aviation Bureau representative presented a plan to inaugurate 15 weekly civilian flights out of Yokota Air Base.

The plan included specific landing and take-off times illustrating how these flights would fit into the flight operations of a sample week based on data from noise-pollution monitoring of the air base.

The USG representative noted that, though presented as a part of

this feasibility study, the flight schedule seemed more like an implementation plan. Both sides agreed to exchange their respective versions of the final report by October 3, and agreed that the final report should be publicly available. However, they were not able to agree on a proposed publication date. (ECON: Charlie Crouch)

112. (U) Dubai Airline Offering Free Nagoya-Tokyo Bullet Train Tickets

Dubai-based Emirates Airline, which does not serve airports in Tokyo, is handing out free round-trip Shinkansen tickets to Tokyo passengers using Nagoya's Central Japan International Airport, according to a September 27 article in Nikkei.

Emirates Airline currently serves the Nagoya airport and Osaka's Kansai International Airport, with daily direct flights to Dubai. Seat occupancy rates of these flights have been more than 80 percent.

But residents of the greater Tokyo area account for only about 20 percent of passengers using the flights into and out of Nagoya. By passing out free Shinkansen tickets to first- and business-class passengers, the airline hopes to boost the percentage to around 50 percent. (ECON: Charlie Crouch)

113. (U) Nippon Steel Acquires Daido Steel Affiliate

Nippon Steel Corp. announced an agreement to acquire Daido Steel Company's entire stake in an electric furnace steelmaking affiliate, bringing its own interest to 42.8 percent according to a September 26 article in the Nikkei.

Daido Steel will sell its 35.6 percent Oji Steel stake to Nippon Steel, which already holds a 7.2 percent interest. The sale price has yet to be hammered out, but is expected to be around 10 billion yen. Daido Steel will withdraw from Oji Steel's management and focus on specialized steel products. (ECON: Charlie Crouch)

ECONOMIC IMPACT

114. (SBU) Japan Post Privatization Set to Begin

Japan Post, with almost \$3 trillion in banking and insurance assets, 24,800 post offices, and 260,000 employees, will split into six entities October 1, marking the beginning of a ten-year privatization process.

Industry and government officials have told us the operational transition will be highly complex. Splitting the group and setting up core information technology systems, for example, have required more than twice the IT upgrades than were needed to privatize telecommunications giant NTT.

TOKYO 00004552 005 OF 007

Keep an eye on your cable queue for more details. (ECON: Marc Dillard)

115. (U) Updated Economic Indicators

Overall economic assessments: In its monthly economic report submitted to the cabinet on September 14, the Cabinet Office left its overall assessment unchanged, noting that "the economy is recovering, while some weakness has been seen recently."

The report confirmed that Japan's economy has entered its 68th consecutive month of expansion, the longest postwar economic boom.

However, the report downgraded its view on corporate capital spending, and expressed caution about the future course of the U.S. economy hit by sub-prime loan problems.

The Bank of Japan report, released on September 19, also kept its core economic assessment unchanged, indicating that the economy is "expanding moderately."

The BOJ said that personal consumption is firm in this situation where household income has continued to rise moderately. The BOJ noted that exports are expected to continue rising, and business investment has also continued to trend upward against the background of high corporate profits. (FINATT: Shuya Sakurai)

116. (SBU) Age-Restricted Employment Ads to Be Curtailed

A revised Employment Promotion Law, which would prohibit companies setting age limits when advertising jobs and recruiting workers, will go into effect on October 1, according to media reports. The revision is intended to improve the employment situation of middle-aged and elderly people, as well as so-called "freeters" (part-time employees).

Currently, companies are only asked to "make efforts" to not set age limits, but with this legal revision, the prohibition will become mandatory. Also, the number of exceptions to the prohibition, which often limit job availability to young people, would be reduced from ten to six.

The revised law will also require the employers of foreign workers to report to the Ministry of Health, Labor, and Welfare the name of the worker, as well as the status of residence and duration of stay -- both at the time of recruitment and employment termination. (ECON: Ai Kaneko)

TRADE

117. (SBU) Pork Importer Arrested Over Tariff Evasion

According to press reports, in what was described as the largest tariff evasion criminal case in Japanese history, authorities have arrested an importer of Canadian pork for evading some 11.8 billion yen in tariffs.

Noboru Sogabe was sentenced September 24 for taking advantage of Japan's complicated gate pork price tariff system by over-invoicing for import shipments between January and November 2006.

Sogabe was sentenced to 16 months in prison and fined 600 million yen.

Japan's gate price system sets a floor on pork import prices and charges a variable tariff that encourages importers to file false invoices claiming they are paying higher prices for the pork than they actually are.

Japan, the largest overseas market for U.S. pork, buys over \$1 billion last year. In a recent cable (Tokyo 3304), the Embassy reported on the potential for corruption created by the gate price system and the impact this could have on U.S. trade. (ECON: Nicholas Hill)

118. (SBU) Beef Still in Freezer?

TOKYO 00004552 006 OF 007

In his first press conference since retaining his position as Agriculture Minister in PM Fukuda's newly-minted cabinet, Masatoshi Wakabayashi restated a familiar line on the beef issue.

He told reporters September 26 that Japan would not relent to

"political pressure" from the United States to relax beef import rules. A final decision would be based on "scientific analysis" by professionals.

The United States position remains that Japan should respect science-based standards, set by the World Animal Health Organization (OIE), and allow U.S. beef to enter Japan without age restrictions on the cattle used in production.

It is a position that Acting Secretary of Agriculture Conner restated earlier in the week. As reported in Nikkei, Conner told reporters that it was a "simple issue" and he hoped Japan would observe international standards.

GOJ officials have told us that Japan cannot move to international standards given the political climate.

Separately, some 15 representatives from the Japan Meat Trade Association met with Embassy FAS officers on September 26 to underscore their desire to see the United States accept a political compromise and move away from insisting that Japan base its import restrictions on OIE standards.

The association wants to boost available supplies of U.S. beef in Japan and moving to a 30-month age restriction, they indicated, could be a plausible compromise. (ECON: Nicholas Hill)

119. (U) Pan-East Asian Trade "Merely a Dream"

Despite lofty rhetoric about the future goals of ASEAN, ASEAN + 1 and other pan-East Asia organizations, there is no East Asia community, and it is unlikely one will emerge in the foreseeable future, said a leading Chinese scholar during a regional economic reporting conference sponsored by Embassy Beijing.

ASEAN member countries are good at making ambitious announcements but rarely set concrete targets. Pan-East Asian trade is "merely a dream" as no progress has been made in establishing a common currency, the scholar lamented.

The professor suggested three issues impeding ASEAN's further development. First, Beijing and Tokyo are both jockeying for regional leadership. Until an agreement can be reached between the two governments, no progress can be made, he suggested. Second, both Korea and Japan fear that closer integration would result in an influx of labor.

Finally, ethnic tensions are on the rise with ASEAN members who believe mainland Chinese investors are using local Chinese networks to buy-up assets to gain economic leverage in the region, the professor stated. (ECON: Sally Behrhorst)

SPORTS

120. (U) Sumo World Rocked by Scandal -- Again

The sumo world, already beleaguered by several scandals involving Yokozuna Asashoryu, is once again hanging its head in shame. Accusations have been leveled at famed stablemaster Tokitsukaze and several of his wrestlers alleging that, on June 25, they severely beat 17-year-old sumo wrestler Takashi Saito. Saito died the following day at a local hospital. The 57-year-old stablemaster has reportedly confessed his crime to the police.

Investigators have so far determined that Saito had attempted to run away from the stable on the morning of June 25, but was caught and forcibly returned by fellow stablemates.

Later that day, Tokitsukaze purportedly struck the youngster over the head with a beer bottle while other wrestlers kicked and punched him for approximately 20 minutes. They claimed the

treatment was part of Saito's "instruction." Police suspect that Saito's stablemates assaulted him on a daily basis.

At a press conference on June 28, Tokitsukaze told reporters he did not know why the boy had died as he was not forced to endure any unreasonable training.

Family members suspected otherwise and asked investigators to perform and autopsy on the body. The results of the autopsy suggest Saito may have died of shock due to physical trauma.
(ECON: Sally Behrhorst)

121. (U) Comeback for Kei Igawa?

The New York Yankees \$46 million Japanese import spent most of the summer plying in the minor leagues, but got another chance with the big team in the middle of a pennant race.

Igawa replaced the ailing Roger Clemens, the Yankees' \$28 million (prorated) hurler, for a start against the Tampa Bay Devil Rays on September 26. The much maligned lefty shut the Rays out for five innings, surrendering only two hits.

In the end it did not matter. The Yankees blew a five run lead and lost 7-6 in 10 innings to a Tampa team that is the worst in baseball.

Meanwhile, despite the fact that their own Japanese imports, Daisuke Matsuzaka and Hideki Okajima, have been struggling, the Red Sox expanded their lead over New York to three games. The magic number is two, with four games in the season remaining.
(Econ: Nicholas Hill)

122. (SBU) THIS WEEK'S CABLES

Tokyo 4468 New LDP Executive Lineup
Tokyo 4466 New Prime Minister Fukuda Leaves Cabinet Largely Intact
Tokyo 4467 GOJ Concerned Over OEF Refueling Issue
Tokyo 4419 Fukuda Wins
Tokyo 4417 Aso and Fukuda Softpedaling Reform, Stressing "Stability"

123. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlie Crouch (CrouchCA@state.gov) and Joy Progar (ProgarJ@state.gov)

124. (U) Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different agency and are interested in a back issue.
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